



Benefit Formula – Final Average Compensation

Initial Consideration

**WASHINGTON STATE
Law Enforcement Officers' and Fire Fighters'
Plan 2 Retirement Board**

Date: July 27, 2005

Benefit Formula

- Typical DB plan formula
 - Years of Service
 - Average Salary
 - Multiplier
- LEOFF Plan 2
 - $2\% \times \text{Years of Service} \times \text{Final Average Salary}$

Final Average Salary

- Uses a predetermined number of months or years to calculate a final average salary.
- Generally, the shorter the period, the higher the calculation. Especially true as wages rise over time.
- Another integral part of final average salary is what is included in the definition of salary.

Calculation Period

- LEOFF Plan 2 uses the highest consecutive sixty-service credit months (5 years).
- PERS Plans 2 & 3, TRS Plans 2 & 3, SERS Plans 2 & 3, WSPRS Plan 2 and PSERS all use the highest consecutive sixty service credit months (5 years).
- PERS Plan 1 uses any consecutive two year period of service credit months.
- TRS Plan 1 uses the two highest compensated consecutive years of service (school years).

Calculation Period Continued

- LEOFF Plan 1 uses the last month if the member has held the same rank or position for the last 12 months. If they have held the position for less than 12 months, then the formula uses the highest consecutive 24-month period out of the last 10 years.
- WSPRS Plan 1 uses the greater of the last two years of service or any consecutive two-year period.

Calculation Period in Other States

- 2004 study of “State Police” plans by *Workplace Economics, Inc.* found the average time period was three highest years.
- A review of 19 state pension plans with both police and fire fighters indicate 16 use either the highest three consecutive years or the highest three out of the last ten or five.
- In a broader study on public safety retirement plans conducted by the Oklahoma Public Employees Retirement system over 60% of the plans use some sort of 3-year variation.

Elements Included in Salary

- Overtime, lump sum payments for deferred annual sick leave, unused accumulated vacation, unused annual leave, holiday pay and severance pay are the most common elements included in basic salary.
- LEOFF Plan 2 uses salaries or wages and overtime, including salary or wages deferred under 403(b), 414(h) or 457 plans.

Salary Elements of Other Plans

- LEOFF Plan 1 uses the basic monthly rate of salary or wages, including longevity pay, but does not include overtime.
- PERS Plan 1 and TRS Plan 1 use the same elements as LEOFF Plan 2 plus vacation leave cashouts.
- PERS Plans 2 & 3, TRS Plans 2 & 3, SERS Plans 2 & 3, WSPRS Plan 2 and PSERS all use the same basic elements as LEOFF 2.

Questions?